

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

NASHVILLE CITY CENTER

511 UNION STREET, SUITE 2100

POST OFFICE BOX 198966

NASHVILLE, TENNESSEE 37219-8966

(615) 244-6380

FAX: (615) 244-6804

www.wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS, LLP
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY

520 SOUTH GRAND AVENUE, SUITE 675

LOS ANGELES, CALIFORNIA 90071

(213) 362-3680

D. Billye Sanders

(615) 850-8951

bsanders@wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

809 SOUTH MAIN STREET

POST OFFICE BOX 1035

COLUMBIA, TENNESSEE 38402-1035

(931) 388-6031

TN REGULATORY AUTHORITY
DOCKET ROOM

August 30, 2002

Chairman Sara Kyle
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37219

Re: Petition of Chattanooga Gas Company for Approval of Change in
Purchase Gas Adjustment; Docket No. 02-00383

Dear Chairman Kyle:

Enclosed you will find the original and thirteen (13) copies of Chattanooga Gas Company's pro forma fixed rate PGA calculation which is filed pursuant to Chattanooga Gas Company's Experimental Fixed Rate PGA Rider issued on April 9, 2002 and revised by filing on May 9, 2002 to be effective on October 1, 2002 (copy attached). On page 1, paragraph 2 of the tariff, it states that:

By September 1 of each year during the Experimental Period, the Company shall make a pro forma rate filing with the Authority reflecting the current market conditions for wholesale gas prices at that point in time. Such filing shall be made in accordance with the formula contained in the Determination of Fixed Rate. Such filing shall not be a guaranty of the Fixed Rate offered on October 1, but shall be indicative of the general market conditions at September 1. Unless the Authority acts to stop the Company from implementing this Rider by September 25, the Company will enter into agreements to lock in the price of gas for the next twelve-month period beginning October 1. If the TRA acts by September 25 to halt this Fixed Rate PGA Rider then the Rider will be suspended for the following twelve months and the Company shall revert to its regular PGA pricing mechanism.

August 30, 2002
Page 2

The attached pro forma is filed pursuant to this provision of the tariff and is based on market conditions as of August 23, 2002. It will produce a Fixed Rate of approximately \$.65 per one-hundred cubic feet ("CCF"). While the Company can not predict what the rates will be on October 1 when it anticipates entering into agreements to lock in the price of the gas for the next twelve months, this filing is indicative of current market conditions. The Company respectfully requests that the TRA allow the Experimental Fixed Rate PGA Rider to be implemented for the year beginning October 1, 2002. Although the tariff only provides for TRA action if the TRA wishes to halt implementation of the Fixed Rate PGA Rider, because this is the initial implementation of the Experimental Fixed Rate PGA Rider and due to the status of the docket in this case, the Company requests a confirmation that the Authority is in agreement that the Experimental Fixed Rate PGA Rider should go into effect on October 1, 2002.

As the Company was preparing to file the pro forma this morning, it learned that an initial order had been issued today in this docket denying the tariff. The Company has not yet received a copy of the order. Nevertheless, the Company plans to file a petition seeking reconsideration by the Directors of the initial order. In order to preserve its ability to implement fixed rates under the tariff during the upcoming heating season, the Company is herewith filing the pro forma pursuant to the tariff. Under the tariff the TRA has until September 25 to act to halt implementation of the fixed rate. The Company believes that this tariff is in the interest of the ratepayers, that it produces a reasonable rate and that it will alleviate the volatility in the gas costs that are passed on to customers. Time is of the essence, because the Company must know by September 25 whether it will be entering into long term gas procurement contracts on October 1. Therefore, the Company respectfully requests that the TRA place this matter on one of its regularly scheduled Authority Conference Dockets prior to September 25 or schedule a Special Authority Conference prior to September 25 to determine whether the initial order should be reversed and whether the Fixed Rate PGA Rider should be implemented for the twelve-month period beginning October 1.

In light of the current status of Docket No. 02-00383, the Company believes it may be helpful to the Directors to have some additional background on this matter.

August 30, 2002

Page 3

Background

On April 8, 2002, Chattanooga Gas Company filed a Petition in the above referenced docket seeking approval of an Experimental Fixed Rate PGA Rider. As stated in the Petition, the purpose of the Fixed Rate Tariff is to provide customers of Chattanooga Gas with certainty on an annual basis relative to their natural gas rates regardless of consumption or weather. Chattanooga Gas developed the tariff in response to the financial hardships faced by residential and small commercial customers due to the volatility in natural gas wholesale prices during past winter heating seasons, particularly the winter of 2000, and in response to the request of the TRA that gas companies be actively engaged in developing methods to reduce the impact of gas price volatility on natural gas customers. As an example of this volatility, last heating season, customers of Chattanooga Gas were faced with costs ranging from \$.42 per CCF to a \$1.00 per CCF. Based on market conditions on August 23, 2002, the Fixed Rate to be offered under this tariff would be approximately \$.65 per CCF. The net benefit to customers is that, should natural gas wholesale prices again increase dramatically, the fixed rate tariff would protect customers from these increased costs by establishing in advance a fixed price for the next twelve months.

After filing the tariff on April 9, 2002, Chattanooga Gas Company initiated meetings with the TRA staff and the Consumer Advocate and Protection Division ("CAPD") staff to explain the tariff and answer any questions regarding it. The Company also responded to numerous data requests from the TRA staff and the CAPD and filed a correction to the tariff based on TRA staff input.

At the TRA conference held on May 7, 2002, the Directors appointed Richard Collier as the Hearing Officer to hear the case on the merits. However, the TRA did not suspend the tariff. A pre-hearing conference was held later in the day on May 7 before Richard Collier, the Hearing Officer. Mr. Collier recognized that the tariff had been on file for 29 days and raised the question of whether the tariff would go in effect under the 30-day rule (TRA Rule 1220-4-1-06(4)) and whether the Company had agreed to suspend the tariff. The discussion regarding suspension that occurred at the pre-hearing conference is contained in the attached excerpt from the transcript of the pre-hearing conference. (p. 23 of Transcript of Pre-Hearing Conference, May 7, 2002, Docket No. 02-00383).

Although the Company indicated that it did not have a problem with suspending the tariff, the tariff, in fact, was never suspended. Furthermore, we believe that all parties contemplated at that time that the matter would be heard

August 30, 2002

Page 4

and a decision rendered prior to June 30, 2002. The Company had specifically asked the agency to work toward rendering a decision before the expiration of the term of the current TRA Directors. The TRA staff, the Hearing Officer and the CAPD staff were working cooperatively toward this goal. Even if the goal of a decision by June 30 was not achieved, the Company anticipated that a decision would be rendered in sufficient time for the tariff to go into effect on October 1, so that gas contracts could be purchased to cover the 2002-2003 heating season.

On May 9, 2002 the CAPD filed a Petition to Intervene, however, the CAPD had been participating in meetings regarding the tariff and the CAPD participated in the pre-hearing conference on May 7. A hearing was held on May 28, 2002 before Richard Collier as Hearing Officer regarding the Petition for Approval of the tariff. Although the TRA staff, the Hearing Officer, and the CAPD staff cooperated in moving the case along in an expeditious manner, as of August 29 an order regarding the May 28th hearing had not been issued. As stated above, we just learned this morning that the initial order has been issued, but have not yet received a copy. The Company understands that there have been many ensuing events that have delayed the issuance of the order, including, but not limited to, completion of TRA orders on dockets heard by the then directors and winding up of business prior to the end of their June 30 terms, a state government shutdown, reorganization of the TRA, orientation of the new directors and associated administrative issues.

It should be noted that the decision to be made at the hearing was whether as a matter of policy the concept of the experimental fixed rate tariff as set forth in the tariff, including the proposed formula for calculating the fixed rate, should be approved. However, under the terms of the experimental tariff, the TRA retains the opportunity each year, based upon the September 1 pro forma filing, to determine whether Chattanooga Gas should enter into contracts on October 1 that will allow a fixed rate to go in effect for the next twelve months.

Thus, as stated above, the purpose of Chattanooga Gas' filing today is to preserve the Company's ability to implement the Fixed Rate Tariff for the upcoming heating season. If this tariff does not go into effect as scheduled on October 1, the opportunity to implement this experiment will be foreclosed for a whole year. The September 25 deadline for knowing if the TRA will allow the tariff to be implemented this year and the October 1 deadline for obtaining long term gas contracts are crucial because gas rates tend to go up as the heating season approaches.

August 30, 2002
Page 5

As stated above, the Company believes that the fixed rate is in the public interest and urges the TRA Directors to consider the matter at an Authority Conference prior to September 25, and allow a fixed rate to go into effect on October 1 pursuant to the tariff.

Sincerely,



D. Billye Sanders
Attorney for Chattanooga Gas Company

DBS/lmb

cc: Richard Collier, Hearing Officer
Archie Hickerson, Manager of Rates, Chattanooga Gas Company
Hal Novak, Sequent Energy Company
Vance Broemel, Consumer Advocate and Protection Division

Chattanooga Gas Company
Pro Forma Fixed Rate PGA Calculation

Exhibit WHN-2

Page 1 of 5

Line No.		Amount	
1	Commodity Cost Component	\$31,325,859	A/
2	Storage Cost Component	8,446,288	B/
3	Demand Cost Component	11,972,648	C/
4	Total Gas Cost	\$51,744,795	
5	Projected Sales Volumes (Dkt)	9,005,850	D/
6	Gas Cost Rate per Dkt	\$5.7457	
7	Pipeline Transportation Rate per Dkt	0.0599	E/
8	Delivered Cost per Dkt	\$5.8056	
9	Delivered Cost per Ccf	0.5980	F/
10	Risk Premium per Ccf	0.0543	G/
11	Fixed Rate PGA per Ccf	\$0.6523	

NOTE: Pro forma results based on market conditions at August 23, 2002.

A/ Exhibit WHN-2, Page 2.

B/ Exhibit WHN-2, Page 3.

C/ Exhibit WHN-2, Page 4.

D/ Exhibit WHN-2, Page 6.

E/ Weighted Average of Pipeline Rates for E. TN/TN and Southern Natural Gas

F/ Average BTU rate of 3.0%.

G/ Approved overall rate of return is 9.08%.

Chattanooga Gas Company
Pro Forma Fixed Rate PGA Calculation
Commodity Cost Component Calculation

Exhibit WHN-2

Page 2 of 5

Line No.		Projected Wellhead Supply (Dkt) A/	Projected Wellhead Rate B/	Projected Wellhead Cost
1	October, 2002	324,912	\$3.543	\$1,151,163
2	November	714,474	\$3.785	2,704,282
3	December	1,316,338	\$4.015	5,285,097
4	January, 2003	1,402,387	\$4.130	5,791,857
5	February	894,898	\$4.080	3,651,184
6	March	741,856	\$4.000	2,967,424
7	April	410,541	\$3.860	1,584,689
8	May	270,589	\$3.860	1,044,475
9	June	261,861	\$3.865	1,012,092
10	July	270,589	\$3.883	1,050,699
11	August	270,589	\$3.895	1,053,946
12	September	261,861	\$3.895	1,019,948
13	Total	7,140,895		\$28,316,854
14	Weather Collar			3,009,005 C/
15	Total Commodity Cost			\$31,325,859

NOTE: Pro forma results based on market conditions at August 23, 2002.

A/ Exhibit WHN-2, Page 6.

B/ Company Workpaper A-1 based on NYMEX Futures quoted in August 26, 2002 issue of Gas Daily.

C/ Company Workpaper E-1.

Chattanooga Gas Company
Pro Forma Fixed Rate PGA Calculation
Storage Cost Component Calculation

Line No.	Month	Beginning Inventory A/			Injections B/			Withdrawals C/			Ending Inventory		
		Volume	Rate	Amount	Volume	Rate	Amount	Volume	Rate	Amount	Volume	Rate	Amount
1	October, 2002	2,716,525	\$3.834	\$10,414,006 A/	0	\$3.543	\$0	236,142	\$3.834	\$905,267	2,480,383	\$3.834	\$9,508,739
2	November	2,480,383	\$3.834	9,508,739	0	3.785	0	315,040	3.834	1,207,730	2,165,343	3.834	8,301,009
3	December	2,165,343	\$3.834	8,301,009	0	4.015	0	322,438	3.834	1,236,091	1,842,905	3.834	7,064,918
4	January, 2003	1,842,905	\$3.834	7,064,918	0	4.130	0	388,941	3.834	1,491,035	1,453,964	3.834	5,573,883
5	February	1,453,964	\$3.834	5,573,883	0	4.080	0	411,797	3.834	1,578,654	1,042,167	3.834	3,995,228
6	March	1,042,167	\$3.834	3,995,228	0	4.000	0	219,826	3.834	842,719	822,342	3.834	3,152,510
7	April	822,342	\$3.834	3,152,510	500,000	3.860	1,930,000	169,410	3.834	649,445	1,152,932	3.845	4,433,064
8	May	1,152,932	\$3.845	4,433,064	500,000	3.860	1,930,000	86,904	3.845	334,147	1,566,028	3.850	6,028,917
9	June	1,566,028	\$3.850	6,028,917	500,000	3.865	1,932,500	13,164	3.850	50,681	2,052,864	3.854	7,910,736
10	July	2,052,864	\$3.854	7,910,736	500,000	3.883	1,941,500	13,603	3.854	52,420	2,539,261	3.859	9,799,816
11	August	2,539,261	\$3.859	9,799,816	202,675	3.895	789,418	13,603	3.859	52,499	2,728,332	3.862	10,536,735
12	September	2,728,332	\$3.862	10,536,735	0	3.895	0	11,807	3.862	45,598	2,716,525	3.862	10,491,136
13	Total				2,202,675		\$8,523,418	2,202,675		\$8,446,288			

NOTE: Pro forma results based on market conditions at August 23, 2002.

A/ Projected Storage Levels Based on June 30, 2002 Actual Inventory.
B/ Source: Company Worksheets
C/ Exhibit WHN-2, Page 6.

Chattanooga Gas Company
Pro Forma Fixed Rate PGA Calculation
Demand Cost Component Calculation

Exhibit WHN-2
Page 4 of 5

Line No.		Projected Demand Cost	A/
1	October, 2002	\$936,054	
2	November	936,054	
3	December	936,054	
4	January, 2003	936,054	
5	February	936,054	
6	March	936,054	
7	April	936,054	
8	May	936,054	
9	June	936,054	
10	July	936,054	
11	August	936,054	
12	September	936,054	
13	Total	<u>936,054</u>	
		\$11,232,648	
14	Weather Collar	<u>740,000</u>	B/
15	Total Commodity Cost	<u>\$11,972,648</u>	

NOTE: Pro forma results based on market conditions at August 23, 2002.

A/ Company Workpaper C-1.

B/ Company Workpaper E-2.

Chattanooga Gas Company
Pro Forma Fixed Rate PGA Calculation
Sales and Supply Volume Reconciliation

Exhibit WHN-2
Page 5 of 5

Line No.		Sales						Supply		
		Projected Residential Usage (Dkt) D/	Projected Commercial Usage (Dkt) D/	Projected Net Usage (Dkt)	Lost and Unact-For Usage (Dkt)	Projected Gross Usage (Dkt) A/	Projected Wellhead Supply (Dkt) B/	Projected Storage Supply (Dkt)	Projected Total Supply (Dkt) A/	
1	October, 2002	226,440	314,334	540,774	20,279	561,053	324,912	236,142	561,053	
2	November	516,274	476,028	992,302	37,211	1,029,514	714,474	315,040	1,029,514	
3	December	882,554	696,989	1,579,543	59,233	1,638,776	1,316,338	322,438	1,638,776	
4	January, 2003	933,972	792,609	1,726,581	64,747	1,791,328	1,402,387	388,941	1,791,328	
5	February	600,752	658,713	1,259,465	47,230	1,306,695	894,898	411,797	1,306,695	
6	March	480,340	446,582	926,922	34,760	961,682	741,856	219,826	961,682	
7	April	281,608	277,381	558,989	20,962	579,951	410,541	169,410	579,951	
8	May	135,998	208,574	344,572	12,921	357,493	270,589	86,904	357,493	
9	June	94,618	170,466	265,085	9,941	275,025	261,861	13,164	275,025	
10	July	103,139	170,782	273,921	10,272	284,193	270,589	13,603	284,193	
11	August	86,129	187,792	273,921	10,272	284,193	270,589	13,603	284,193	
12	September	88,996	174,781	263,776	9,892	273,668	261,861	11,807	273,668	
13	Total	4,430,819	4,575,031	9,005,850	337,719	9,343,569	7,140,895	2,202,675	9,343,569	
14				9,005,850	337,719	9,343,569			9,343,569	
15					3.75% C/					

Gas losses as a percentage of delivered volumes:

Gas losses as a percentage of delivered volumes:

- A/ Company Worksheet F-1.
B/ Company Worksheet B-1.
C/ Company Worksheet D-1.
D/ Company Worksheet B-2b.

Futures

NYMEX @ Henry Hub

Results From Friday

Settlement	High	Low	Change	Vol.*
Sep., 2002	3.487	3.520	3.440	-2.8 61,624
October	3.543	3.580	3.515	-4.8 31,496
November	3.785	3.820	3.760	-4.3 11,863
December	4.015	4.040	4.000	-3.6 6,799
Jan., 2003	4.130	4.140	4.110	-2.7 6,621
February	4.080	4.100	4.060	-2.7 1,989
March	4.000	4.005	3.975	-2.7 5,928
April	3.860	3.875	3.820	-2.7 3,281
May	3.860	3.870	3.840	-2.7 1,654
June	3.865	3.870	3.820	-2.5 1,681
July	3.883	3.890	3.890	-1.7 1,237
August	3.895	3.905	3.890	-1.7 1,027
September	3.895	3.900	3.875	-1.7 2,773
October	3.905	3.890	3.870	-1.7 772
November	4.060	4.060	4.040	-1.2 471
December	4.215	4.215	4.210	-1.2 373
Jan., 2004	4.265	4.260	4.250	-0.7 109
February	4.145	—	—	0.6 185
March	3.965	3.945	—	1.6 114
April	3.750	—	—	1.6 163
May	3.725	—	—	2.6 43
June	3.735	—	—	2.6 5
July	3.747	—	—	2.6 5
August	3.752	—	—	2.6 5
September	3.742	—	—	2.6 5
October	3.775	3.710	3.710	3.7 5
November	3.955	3.980	3.890	2.7 90
December	4.130	4.083	4.070	2.7 205
Jan., 2005	4.205	4.155	4.155	2.7 100
February	4.125	4.075	4.075	2.7 185
March	3.952	3.900	3.900	2.7 185
April	3.714	3.660	3.660	2.7 30
May	3.662	3.610	3.610	2.7 30
June	3.682	—	—	2.7 30
July	3.707	—	—	2.7 30
August	3.722	—	—	2.7 30

Volume of contracts (official*)

142,740

Front-months open interest Thursday:

September, 43,902; October, 52,726; November, 28,472

Total open interest Thursday: 436,361

* Volume is reported for the business day prior to the settlement date.

Weighted average of x trades in the last two minutes of trading. Change is from previous settlement price.

Options

NYMEX @ Henry Hub

Results from Friday

Strike	Price	Oct.	Nov.	Sept.	Oct.	Nov.
3.3	21.6¢	39.8¢	63.1¢	2.9¢	15.6¢	15.0¢
3.35	17.9¢	36.9¢	59.9¢	4.2¢	17.7¢	16.7¢
3.4	14.6¢	34.2¢	56.8¢	5.9¢	19.9¢	18.6¢
3.45	11.7¢	31.6¢	53.8¢	8.0¢	22.3¢	20.5¢
3.5	9.1¢	29.1¢	50.9¢	10.4¢	24.8¢	22.6¢
3.55	7.1¢	26.7¢	48.2¢	13.4¢	27.4¢	24.8¢
3.6	5.4¢	24.6¢	45.5¢	16.7¢	30.3¢	27.1¢
3.65	4.0¢	22.6¢	42.9¢	20.3¢	33.3¢	29.5¢
3.7	2.9¢	20.8¢	40.5¢	24.2¢	36.4¢	32.0¢

Estimated Volume: Calls: n/a Puts: n/a

Total open interest Thursday Calls: 832,505 Puts: 746,796

Not all strike and settlement prices listed.

Implied Volatility for at-the-money strike price

Calls: n/a Puts: n/a Source: Bloomberg

Platts oil prices, August 23

Gulf Coast spot	(\$/b)	(\$/MMBtu)
0.7% resid	25.25-25.50	4.04
1% resid	24.25-24.50	3.88
3% resid	22.75-23.10	3.65

Crude spot	WTI (Sep)	
	30.07-30.09	4.78

New York spot	No. 2	
	30.49-30.58	4.86
0.3% resid HP	27.00-27.50	4.33
0.3% resid LP	28.10-28.35	4.49
0.7% resid	26.20-26.50	4.19
1% resid HP	25.65-26.00	4.11

Basis Differential

This table shows the basis relationships between several key pipeline and regional market points. The calculations are based on weekly weighted averages for prices gathered last week. The wacog for the Rockies is a composite of the points in that regions. Data in this table is Copyright 2002 by The McGraw-Hill Companies, Inc.

	Henry Hub	El Paso Permian	Agua Dulce	Transco St. 65	Katy Col. Gas	So. Rockies	PEPL	Chicago	Appal.	Calif.
Weekly WACOG	3.21	2.87	3.12	3.26	3.15	1.28	2.93	3.11	3.58	2.91
Henry Hub		0.34	0.09	-0.05	0.06	1.93	0.28	0.10	-0.37	0.30
EP/Permian	-0.34		-0.25	-0.39	-0.28	1.59	-0.06	-0.24	-0.71	-0.04
Agua Dulce	-0.09	0.25		-0.14	-0.03	1.84	0.19	0.01	-0.46	0.21
Transco 65	0.05	0.39	0.14		0.11	1.98	0.33	0.15	-0.32	0.35
Katy Hub	-0.06	0.28	0.03	-0.11		1.87	0.22	0.04	-0.43	0.24
Rockies	-1.93	-1.59	-1.84	-1.98	-1.87		-1.65	-1.83	-2.30	-1.63
PEPL	-0.28	-0.06	-0.19	-0.33	-0.22	1.65		-0.18	-0.65	0.02
Chicago	-0.10	0.24	-0.01	-0.15	-0.04	1.83	0.18		-0.47	0.20
Col. Gas Appal.	0.37	0.71	0.46	0.32	0.43	2.30	0.65	0.47		0.67
SoCal gas, large pkgs	-0.30	0.04	-0.21	-0.35	-0.24	1.63	-0.02	-0.20	-0.67	
NYMEX Basis	-0.277	-0.617	-0.367	-0.227	-0.337	-2.207	-0.557	-0.377	0.093	-0.577

NYMEX Basis is the NYMEX Henry Hub/cash basis differential calculated from the near-month settlement of \$3.487.

Henry Hub: Bullish September contract forges ahead

Anyone looking at a charted graph of the September contract last week would've seen an image very similar to that of a rising staircase, as prices started off the week strong, but continued to gain even more strength as the week pressed on.

Traders on the NYMEX floor said most of last week's activity was due to zealous locals and funds intent on keeping upward pressure on the contract long enough to send prices into the stratosphere at the release of the Energy Information Administration storage report, which was predicted to be strongly bullish.

Obviously the strategy worked, as prices jumped over the \$3.50 mark Thursday afternoon. However, as prices pierced resistance levels, Relative Strength Indicators (RSI) became increasingly overbought — indicating a short-term top might be on the horizon, sources said.

With crude oil futures at an 11-month high at the opening bell Monday, the September contract didn't need fundamental justification to rally, traders said.

Despite an overall bearish sentiment in the marketplace at the beginning of the week, the general strength in the petroleum complex helped carry the September contract to a high of \$3.29, before closing at \$3.267, up 11.8¢.

On Tuesday, prices lost 10.1¢ — nearly all of Monday's gains — but still managed to sidestep a full-blown sell-off, floor traders agreed. After slipping to a low of \$3.16 just before the closing bell, prices inched back up to settle at \$3.166.

"Tuesday's drop was mainly the product of very short-term traders capturing small gains from Monday's rally," said one market observer.

After trading between a low of \$3.165 and a high of \$3.31, the September contract on Wednesday gained back 10.8¢ to close at \$3.274.

"Technicals continued to outweigh fundamentals," one trader said. "Trying to predict the market based on fundamentals has gone out the door for a long time now."

When the EIA storage report was released Thursday morning, showing a 37 Bcf injection, prices catapulted over 20¢ immediately and then retained strength for the entire day before closing at \$3.515, up 24.1¢.

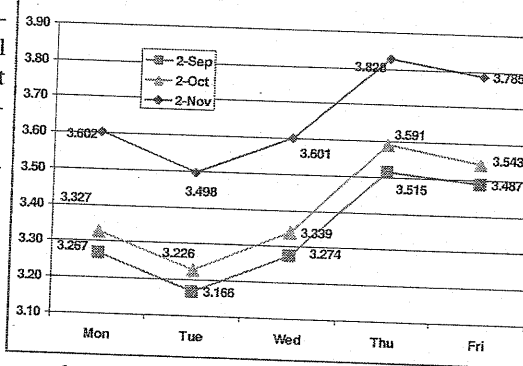
On Friday, the September contract opened slightly lower at \$3.47 due to light overnight profit-taking on Access. Throughout the day, nominal profit capturing had prices trending about 5¢ lower for most of the day, before settling at \$3.487, down 2.8¢.

As for the short-term outlook for this week, technical traders said they expect prices to continue to fall lower, possibly down to the mid-\$3.30s as expiration day approaches.

"The rallies we've seen lately were really a last great attempt at pushing prices as high as possible before the market heads into the shoulder season, and overall activity in the marketplace subsides for a while," a source said.

AL

Front month's price movement, August 19-23



CURRENT LEVEL OF PURCHASED GAS ADJUSTMENT (IN DOLLARS PER MCF)

RATE TARIFF

Effective Date	<u>I-1 Demand</u>	<u>I-1 Commodity</u>	<u>* L-1 Commodity</u>	<u>T-2 Demand</u>	<u>V-1 Commodity</u>	<u>All Other Commodity</u>
BASE RATES:	\$15.0861	\$2.2751	\$2.2751	\$15.0861	\$2.7710	\$3.5120
11/1/98	0.1000	0.3000	0.3000	0.1000	0.1000	0.3000
12/1/98	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
1/1/99	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
2/1/99	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
3/1/99	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
4/1/99	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
5/1/99	(0.1514)	(0.6033)	(0.6033)	0.0000	0.0000	0.0000
6/1/99	0.0000	0.0000	0.0000	(0.1514)	(0.4050)	(0.3800)
7/1/99	0.0016	0.2599	0.2599	0.0000	0.0000	0.0000
8/1/99	0.0000	0.0000	0.0000	0.0016	0.2600	0.2440
9/1/99	0.0000	0.5374	0.5374	0.0000	0.0000	0.0000
10/1/99	0.0000	0.2563	0.8115	0.0000	0.5370	0.6570
11/1/99	(7.7316)	(0.1037)	(0.0633)	0.0000	0.2540	0.2543
12/1/99	0.0000	0.2281	0.3886	(7.7316)	(0.3551)	0.0287
1/1/00	0.0000	0.0000	0.0000	0.0000	0.2281	0.2279
2/1/00	0.0000	(0.5599)	(0.9017)	0.0000	0.0000	0.0000
3/1/00	0.0000	0.0000	0.0000	0.0000	(0.5599)	(0.5599)
4/1/00	0.0000	0.3488	0.2618	0.0000	0.0000	0.0000
5/1/00	0.0000	0.0000	0.0000	0.0000	0.3488	0.3957
6/1/00	(0.0602)	0.1691	0.4842	0.0000	0.0000	0.0000
7/1/00	(0.0464)	0.9174	1.4861	(0.0602)	0.1671	0.0908
8/1/00	0.0000	0.0000	0.0000	(0.0464)	0.9174	0.9419
9/1/00	0.0000	(0.3497)	(0.6810)	0.0000	0.0000	0.0000
10/1/00	0.0000	0.0000	0.0000	0.0000	(0.3497)	(0.3783)
11/1/00	0.0000	1.3896	1.6936	0.0000	0.0000	0.0000
12/1/00	0.0000	0.9011	0.3706	0.0000	1.3896	1.3896
1/1/01	0.0000	0.0000	0.0000	0.0000	0.9011	0.9093
2/1/01	0.0000	2.4344	3.6829	0.0000	0.0000	0.0000
3/1/01	0.0000	(2.1848)	(3.3260)	0.0000	2.4344	2.3090
4/1/01	0.0000	(0.9978)	(1.0971)	0.0000	(2.1848)	(2.1848)
5/1/01	0.0000	(0.2005)	0.3759	0.0000	(0.9978)	(1.1168)
6/1/01	0.0000	(0.2283)	(0.5416)	0.0000	(0.2005)	(0.2048)
7/1/01	0.0000	(0.8485)	(1.1932)	0.0000	(0.2283)	(0.2469)
8/1/01	0.0000	(0.3493)	(0.5596)	0.0000	(0.8485)	(0.8893)
9/1/01	0.0000	0.0902	0.0169	0.0000	(0.3493)	(0.3436)
10/1/01	0.0000	0.0000	0.0000	0.0000	0.0902	0.0950
11/1/01	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
12/1/01	0.0000	(0.3232)	0.0454	0.0000	0.0000	0.0000
1/1/02	0.0000	0.0000	0.0000	0.0000	(0.3248)	(0.3433)
2/1/02	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
3/1/02	0.0000	(0.6574)	(1.3347)	0.0000	0.0000	0.0000
4/1/02	0.0000	1.8633	2.4761	0.0000	(0.6574)	(0.5352)
5/1/02	0.0000	(0.1859)	0.3168	0.0000	1.8633	1.9685
6/1/02	0.0000	0.0000	0.0000	0.0000	(0.1859)	(0.1195)
7/1/02	0.0000	0.5534	(0.4909)	0.0000	0.0000	0.0000
10/1/02	0.0000	0.0000	0.0000	0.0000	0.5534	0.5151
Current Cost	7.1981	4.9318	4.9904	7.1981	5.1684	6.5230 **

*NOTE

*The L-1 commodity rate shall also be applicable to the air conditioning rate for rate schedules R-1, R-4 AND C-1.
** Fixed Rate PGA applicable to Residential and Commercial Class Customers

EFFECTIVE : October 1, 2002

EXPERIMENTAL FIXED RATE PGA RIDER

APPLICABILITY

This Rider shall apply to the Company's Purchased Gas Adjustment Provision for the Residential General Service (Rate Schedule R-1), Multi-Family Housing Service (Rate Schedule R-4) and Commercial and Industrial General Service (Rate Schedule C-1) Rate Schedules. This Rider shall also supersede the Company's regular Purchased Gas Adjustment Rider for these rate schedules at those times when this Rider is in effect.

EXPERIMENTAL PERIOD

This Experimental Rider is effective for a three-year period beginning October 1, 2002 and ending September 30, 2005. This Rider may be discontinued by either the Company or the Authority upon notice 30 days prior to the annual anniversary date of October 1.

INTENT AND APPLICATION

This Rider is intended to provide for all of the gas needs for the covered rate schedules at a fixed rate PGA, regardless of consumption or weather. A new fixed rate PGA will be implemented for a 12 month period on October 1 of each year during the Experimental Period. By September 1 of each year during the Experimental Period, the Company shall make a pro forma rate filing with the Authority reflecting the current market conditions for wholesale gas prices at that point in time. Such filing shall be made in accordance with the formula contained in the Determination of Fixed Rate. Such filing will not be a guarantee of the Fixed Rate offered on October 1, but shall be indicative of the general market conditions at September 1. Unless the Authority acts to stop the Company from implementing this Rider by September 25, the Company will enter into agreements to lock in the price of gas for the next 12 month period beginning October 1. If the TRA acts by September 25 to halt this Fixed Rate PGA Rider, then this Rider will be suspended for the following 12 months, and the Company shall revert to its regular PGA pricing mechanism.

EXPERIMENTAL FIXED RATE PGA RIDER (Continued)

DETERMINATION OF FIXED RATE

The fixed rate PGA offered under this service shall be set in accordance with the following formula:

$$\left(\frac{\sum_{N_1-N_{12}} [(O_N \times Q_N) + C_1] + \sum_{N_1-N_{12}} [(SI_N + SQ_N) \times S_N] + [D + C_2]}{\sum_{N_1-N_{12}} (V_N)} \right) + PTR + RP$$

Where:

- N = Month of Fixed PGA Rate.
- O = Gas Daily NYMEX Future Rate at the Henry Hub.
- C₁ = Projected cost of financial collar between normal and actual volumes purchased.
- Q = Projected gas wellhead purchases, excluding industrial usage.
- SI = Projected cost of gas in storage inventory.
- SQ = Projected volume of gas in storage inventory.
- S = Projected gas deliveries from storage inventory, excluding industrial usage.
- D = Projected annual pipeline demand charges, excluding industrial demand.
- C₂ = Projected cost of financial collar between normal and actual volumes sold.
- V = Projected sales volumes, excluding industrial usage.
- PTR = Projected pipeline transportation rate.
- RP = Risk Premium.

WAIVER OF PRUDENCE AUDITS, ACA AUDITS, AND PGA REQUIREMENTS

Because the Authority has notice of the fixed gas rate to be offered for the next 12 months in advance of its implementation, the prudence of these gas purchases is assumed, and the requirements for prudence audits under Section 1220-4-7-.05 of the Tennessee Regulatory Authority's Purchased Gas Adjustment Rule is waived for these purchases. In addition, because the Company is required to commit to an annual price offering for all consumption in advance, the annual audit of the Company's actual gas costs shall also be waived for the applicable rate schedules, subject to any verification over the accuracy of end-user bills. Finally, because the Company is committing to a one-year price offering, all requirements of the Authority's Purchased Gas Adjustment Rule shall also be waived for the affected rate schedules.

EXPERIMENTAL FIXED RATE PGA RIDER

APPLICABILITY

This Rider shall apply to the Company's Purchased Gas Adjustment Provision for the Residential General Service (Rate Schedule R-1), Multi-Family Housing Service (Rate Schedule R-4) and Commercial and Industrial General Service (Rate Schedule C-1) Rate Schedules. This Rider shall also supersede the Company's regular Purchased Gas Adjustment Rider for these rate schedules at those times when this Rider is in effect.

EXPERIMENTAL PERIOD

This Experimental Rider is effective for a three-year period beginning October 1, 2002 and ending September 30, 2005. This Rider may be discontinued by either the Company or the Authority upon notice 30 days prior to the annual anniversary date of October 1.

INTENT AND APPLICATION

This Rider is intended to provide for all of the gas needs for the covered rate schedules at a fixed rate PGA, regardless of consumption or weather. A new fixed rate PGA will be implemented for a 12 month period on October 1 of each year during the Experimental Period. By September 1 of each year during the Experimental Period, the Company shall make a pro forma rate filing with the Authority reflecting the current market conditions for wholesale gas prices at that point in time. Such filing shall be made in accordance with the formula contained in the Determination of Fixed Rate. Such filing will not be a guarantee of the Fixed Rate offered on October 1, but shall be indicative of the general market conditions at September 1. Unless the Authority acts to stop the Company from implementing this Rider by September 25, the Company will enter into agreements to lock in the price of gas for the next 12 month period beginning October 1. If the TRA acts by September 25 to halt this Fixed Rate PGA Rider, then this Rider will be suspended for the following 12 months, and the Company shall revert to its regular PGA pricing mechanism.

ISSUED ON: April 8, 2002

EFFECTIVE: October 1, 2002

1 MR. COLLIER: Ms. Sanders, is there a
2 question regarding the effectiveness of the tariff? Is
3 it going to be in effect tomorrow on a 30-day rule, or
4 have you agreed to suspend the tariff?

5 MS. SANDERS: Well, I think that
6 technically it could go into effect tomorrow on a
7 30-day rule. There was some discussion about, you
8 know, the TRA suspending it at the conference today and
9 they did not take any action.

10 MR. COLLIER: Would you be in
11 agreement to suspend the effectiveness of it?

12 MS. SANDERS: I'll have to discuss
13 that with my client. (Pause.) The company doesn't
14 have a problem suspending the effective date of the
15 tariff.

16 MR. COLLIER: Appreciate that. Well,
17 I think we've come together for a schedule. Is there
18 anything else at this time you want to talk about while
19 everybody is here?

20 MR. BROEMEL: We decided that it's
21 before a hearing officer rather than the Directors?
22 Does that seem to be the conclusion? But then there
23 was some discussion by Chattanooga Gas whether that
24 would be the case, and I just wondered where we've left
25 that.